AUSTRIA

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1999	2000	2001	1/
Income, Production and Employment:				
Nominal GDP	210,069.7	189,899.5	190,353.2	2/
Real GDP Growth (pct)	2.8	3.3	1.3	
GDP by Sector:				
Agriculture	4,175.1	3,496.3	N/A	
Manufacturing	61,525.9	56,269.3	N/A	
Services	117,257.9	103,222.4	N/A	
Government	13,028.7	11,486.9	N/A	
Per Capita GDP (US$)	25,960	23,416	23,360	2/
Labor Force (1,000s)	3,701	3,701	3,721	
Unemployment Rate (pct)	4.0	3.7	3.8	
Money and Prices (annual percentage growth):				
Money Supply Growth (M2)	4.6	2.8	N/A	
Consumer Price Inflation	0.6	2.3	2.6	
Exchange Rate (Euro/US$ annual average) 3/	12.91	14.93	15.29	
Balance of Payments and Trade:				
Total Exports FOB	64,235.2	64,232,2	67,310.0	2/
Exports to U.S.	2,931.5	3,223.9	3,400.0	
Total imports CIF	69,617.4	69,064.3	72,730.0	2/
Imports from U.S.	3,719.9	3,785.9	4,000.0	
Trade Balance	-5,382.2	-4,832,1	-5,420.0	
Balance with U.S.	-788.4	-562.0	-600.0	
External Public Debt 4/	17,925.7	15,447.0	12,206.1	
Fiscal Deficit/GDP (pct)	2.2	1.1	0.7	
Current Account Deficit/GDP (pct)	3.2	2.8	2.6	
Debt Service Payments/GDP (pct) 5/	0.7	1.4	1.4	
Gold and Foreign Exchange Reserves (Year-End) 6/	20,193.6	17,394.5	N/A	
Aid from U.S.	0	0	0	
Aid from All Other Sources	0	0	0	

Footnotes:

1/ 2001figures are all estimates based on latest available data and economic forecasts in October 2001.

2/ The apparent decline in 2000 and/or 2001 figures is a result of exchange rate fluctuations between the Euro and the US dollar.
In local Euro currency, figures show an increase in 2000 and/or 2001.

3/ Euro for US$ 1.00. There is only an official rate, no parallel rates.

4/ Since the start of the Economic and Monetary Union (EMU) on January 1,,1999, external debt is defined as debt denominated in other currencies than the Euro.

5/ Debt service payments on external public debt.

6/ Since the start of the EMU, the Austrian National Bank's foreign exchange reserves are part of the Eurosystem. The apparent decline in the 2000 figure is a result of exchange rate fluctuations between the Euro and the US dollar. In Euro currency, figures were stable.

Sources: Austrian Institute for Economic Research (WIFO), Austrian Central Statistical Office, Austrian Federal Finance Ministry, Austrian National Bank, and Federal Debt Committee.

1. General Policy Framework

Based on per capita GDP, Austria is the fifth richest EU country. Austria has a skilled labor force and a record of excellent industrial relations. Its economy is dominated by services, accounting for 70 percent of employment, followed by manufacturing. Small and medium-sized companies are predominant. After previous governments had privatized most of the formerly state-owned manufacturing industries, the Conservative (OVP)-Freedom Party (FPO) government that took office in 2000 decided to go ahead with further privatization, including in the banking, telecommunications and energy sectors. It was also considering full privatization of partly privatized companies, including Austrian Airlines and OMV petroleum company; but more recently has put these projects on hold due to changed economic conditions.

Exports of Austrian goods and services account for more than 45 percent of GDP. Austria's major goods export market is the EU, accounting for 66 percent of Austrian exports (41 percent to Germany, 7 percent to Italy) vs. 5 percent to the United States. However, given Austria's traditional expertise in Central and Eastern European (CEE) markets, exports to that region have soared since 1989, accounting for 13 percent of Austrian exports in 2000. Numerous multinationals have established their regional headquarters in Austria as a "launching pad" to the CEE markets.

The government has been less bound than its predecessors by the Austrian tradition of setting economic policy in consultation with the so-called "Social Partners," consisting of the representative bodies of business, farmers, and labor. Designed to minimize social unrest, this consensual approach has come under criticism for slowing the pace of economic reforms. The government broke precedent by not consulting with the social partner institutions on important economic policy decisions such as social benefits reform and balancing the budget.

As a member of the EU's Economic and Monetary Union (EMU), Austria is required to keep its budget deficit in line with the Maastricht convergence criteria. The budget consolidation process is hard, however, as the federal deficit had to come down from 2.5 percent of GDP in 1999. Strong economic growth and swift implementation of tax increases and pension reform helped the new government to limit the federal deficit to 1.4 percent of GDP in 2000. The government intends to further reduce the federal deficit to 1.1 percent in 2001 and to 0.4 percent by 2002. Reduced economic growth prospects, increased spending on family allowances and halting public service reform, however, make the target more difficult to hit.

Other foci of economic policy are introducing the single euro currency, reforming the social and pension systems, implementing an ambitious privatization program, and creating a more competitive business environment. Although Austria's economy has become considerably more liberal and open, foreign investors as well as local businesses must still cope with rigidities, barriers to market entry, and an elaborate regulatory environment in some sectors.

2. Exchange Rate Policies

As one of the twelve EU member states participating in EMU, Austria on January 1, 1999 surrendered its sovereign power to formulate monetary policy to the European Central Bank (ECB). The government successfully met all EMU convergence criteria due to austerity measures implemented in 1996-97, and is pursuing a policy of further reducing the fiscal deficit and the public debt. The government's goal is to balance the consolidated public sector budget by 2002, offsetting the slight federal deficit with a regional and local government surplus. The Austrian National Bank (ANB) is a member of the European System of Central Banks (ESCB) and supports the ECB's focus on maintaining price stability in formulating exchange rate and monetary policies. On December 31, 1998, the exchange rate for the Euro was fixed at Austrian schillings (AS) 13.7603.

In 2000, the Euro, and with it the Austrian schilling, lost considerable ground against the dollar. In 2001, the dollar continued to rise further against the schilling parallel to its rise against the single Euro currency.

3. Structural Policies

Austria's 1995 accession to the EU forced the government to accelerate structural reforms and open the economy, removing many nontariff barriers to merchandise trade and fully liberalizing cross-border capital movements.

While the government continues to be a major player in the economy, government spending (federal, provincial and local governments plus social security, but excluding parastatals) fell to 52.4% of GDP in 2000 from 57.4% in 1995. (Note: the figure for the government contribution to GDP, as shown in the table, reflects only narrow public administration functions and does not include social and other expenditures.) The government's plans for a balanced total public sector budget and privatization should reduce this share further. In May 2000, Parliament passed a law establishing a legal framework for privatization of remaining government shareholdings. Meanwhile, the government has sold all its shares in the Postal Savings Bank, Vienna airport company, Austria tobacco company, and Dorotheum auction house and bank, and a majority in Telekom Austria. The government will also review full privatization of its shareholdings in already partly privatized companies, including Austrian Airlines, OMV petroleum company and Voest-Alpine steel. A stated policy of "maintaining the Austrian interest" in banks and basic industries has so far not had any real effect. Foreign investors have been successful in obtaining shares in important Austrian industry sectors, for example the banking, telecom and energy sectors.

As a result of EU liberalization directives, the government has also moved ahead with liberalization legislation in the telecom and energy sectors. The opening of the market for conventional telephones on January 1, 1998, represented the final phase of Austria's telecom liberalization. The Austrian telecom services sector is now open to competition, but more so in mobile than in fixed-line telephony (including Internet service). The government also moved ahead with the liberalization of the highly centralized and virtually closed electricity market. All customers are allowed to choose their electricity supplier as of October 2001. However, federal, state and local governments maintain control of the electricity distribution grid. The federal government is likely to keep its 51 percent majority in the federal power company "Verbund" because selling these shares requires a two-thirds majority in Parliament. Preparations are also under way to liberalize the natural gas market in 2002.

In past years, the government has cut red tape to make Austria more attractive for investors. Procedures for investors to obtain necessary permits and other approvals have been streamlined and the time for approvals cut considerably; however, approval for larger projects can still be burdensome and lengthy. The government's plans for implementing "one-stop-shopping" for all necessary permits, even online, have not yet made much progress, in part due to jurisdictional problems. Other measures planned to improve the business climate and stimulate entrepreneurial activity include the reduction of non-wage costs for labor, strengthening the equity market for small and medium-sized enterprises, reducing the number of laws and regulations for business, drafting a new company law, reforming the Business Code to liberalize establishing new businesses, allowing more flexible work hours and more liberal shopping hours. So far, progress in all these areas is limited.

4. Debt Management Policies

Austria's external debt management has had no significant impact on U.S. trade. At the end of 2000, the Austrian federal government's external debt amounted to $15.4 billion (14 percent of the government's overall debt) and consisted of 93 percent bonds and 7 percent credits and loans. Debt service on the federal government's external debt amounted to $2.6 billion in 2000, or 1.4 percent of GDP and 2.8 percent of total exports of goods and services. The total public sector external debt in 2000 was not significantly higher than the federal government's external debt. Total gross public debt was 62.9 percent of GDP at the end of 2000 and, thus, still above the 60 percent ceiling set under the Maastricht convergence criteria. Republic of Austria bonds are rated AAA by recognized international credit rating agencies.

5. Significant Barriers to U.S. Exports

The United States is Austria's largest non-European trading partner, contributing 5.5 percent of Austria's total 2000 imports. The United States was Austria's third largest supplier worldwide after Germany and Italy. The Austrian government thus has a clear interest in maintaining close and smooth trade ties. However, there are a number of obstacles hindering further increases of U.S. exports to Austria.

A GATT member since 1951, Austria is a signatory to the successor WTO.

Import License Requirements: The EU, and therefore Austria, requires import licenses for a number of products, first and foremost for agricultural and health products on health grounds. In general, an Austrian importer must possess an export license from the supplier country and then obtain permission to import from the Austrian authorities.

Separate from the issue of licensing is the issue of approval of pharmaceuticals for reimbursement under Austrian health insurance regulations. The Austrian social insurance association ("Hauptverband der Sozialversicherungstraeger") decides which products are approved for reimbursement by health insurance plans. Pharmaceuticals not approved by the Hauptverband have higher out-of-pocket costs for patients. Therefore U.S. innovative pharmaceutical companies have complained that difficulty placing products on the list of reimbursable products amounts to a market access restriction. The U.S. and Austria are discussing this issue under Informal Commercial Exchange (ICE) talks.

Various agricultural products are banned from the Austrian market for the same reasons. The EU ban on beef imports from cattle treated with hormones severely restricts U.S. exports of beef to Austria. Despite a WTO decision that the ban is inconsistent with the rules of international trade, the EU has not lifted the ban. The Austrian government, moreover, has ruled out a lifting of the ban in the near future. Further, the EU has not approved any U.S. poultry plants, ruling out the possibility of importing U.S. poultry, or products containing poultry. Finally, the EU has not approved most genetically modified plants available in the United States; imports of these plants or products containing these plants are not permitted. Austria has gone even further than its EU partners: Novartis corn and Monsanto BT corn, approved by the European Commission, are not permitted in Austria. The Austrian Government even ordered corn to be plowed under in 2001 when it was found to contain adventitious trace amounts of EU-approved GMO varieties.

Service Barriers: Providers of financial services such as insurance and banking have to meet reciprocity requirements, and at least one manager of each branch or subsidiary must have residence in Austria. Providers of legal services must submit specific proof of their qualifications, such as university education or number of years of practice. Potential health and social services providers are subject to an economic test and must obtain a business permit from the local governments. Travel agencies and tour operators require a proof of qualification and must be listed with the Austrian Ministry of Economics. Under the WTO General Agreement on Trade in Services, Austrian officials insist that Austria's commitments on trade in professional services extend only to intra-corporate transfers. U.S. service companies often form joint ventures with Austrian firms to circumvent these restrictions.

Several competitors now offer fixed-line telephone service over Telekom Austria lines, which, however, still dominates fixed-line service over the "last mile." The telecommunications control authority issued an order for unbundling of the local loop in September 2000. Competitors are supposed to negotiate with the incumbent Telekom Austria regarding conditions of local loop access, and will have recourse to the telecoms control authority if they cannot reach agreement with the dominant carrier. "Third generation" mobile telephony licenses were issued in December 2000.

Labeling requirements: Information is required for most (and all wrapped) foodstuffs identifying the composition of the product, the manufacturer, methods of storage and preparation and the quantity. Other important requirements include washing instructions on textiles, and certification of safety (the CE mark) on machines, toys and baby accessories.

Investment barriers: Austria is in compliance with World Trade Organization Trade Related Investment Measures (TRIMS) agreement notification. There are limited restrictions on foreign investment in Austria with regard to sectors (see next paragraph). However, at least one manager must meet residency and other legal qualifications. Non-residents must appoint a representative in Austria. Although not required in order to gain access to tax incentives, performance requirements may be imposed when foreign investors seek financial or other assistance from the Austrian government. The Residence Law and the Foreign Workers Employment Law exempt skilled U.S. labor (e.g., managers and their dependents) from an increasingly restrictive quota system for residence permits.

Foreign and domestic private enterprises are free to establish, acquire, and dispose of interests in business enterprises, with the exception of railroads, some utilities, and state monopolies. As the government continues to pursue privatization, some of these industries are gradually being opened up to private investment as well. In July 2001, a law on terrestrial private television was adopted that allows foreign investments in this area for the first time.

The Austrian electricity market has been fully liberalized for consumers - and foreign investors - in October 2001, but the majority shares of the Austrian suppliers remain in the hands of various levels of governments. In October 2002, the gas market will be completely opened up as well. Overall costs in Austria are similar to those in France and Italy, lower than in Germany and Japan, but higher than in the United States, Canada and the U.K.

Government Procurement: Austria is a party to the WTO Government Procurement Agreement; Austria's Federal Procurement Law was amended in January 1997 to bring its procurement legislation in line with EU guidelines, particularly on services. In defense contracts, offset agreements are common practice. U.S. firms have reported experiencing a strong pro-EU bias in government contract awards, and a similar pro-EU bias (in some instances an even more narrow call for "Austrian solutions") has also appeared to play a role in some privatization decisions. In a recent procurement case, however, the U.S. firm Sikorsky was able to secure a major contract for "Blackhawk" helicopters over European competitors, in a hard-fought competition in which offsets were a major factor.

Customs Procedures: There are no particularly burdensome procedures. However, in order with the EU Generalized System of Preferences, a customs declaration must be made in order to bring goods from a third country to Austria. Depending on the product and the country of origin, specific evidence must be included.

6. Export Subsidies Policies

The government provides export promotion loans and guarantees within the framework of the OECD export credit arrangement and the WTO Agreement on Subsidies and Countervailing Measures. Some export promotions, however, fall under the category "development aid." The Austrian Kontrollbank (AKB), Austria's export financing agency, administers the government's export guarantees. Credits under the AKB's export financing scheme are provided in conformity with the rules of the OECD Arrangement on Guidelines for Officially Supported Export Credits ("Consensus"). The AKB publishes conditions and eligible country lists, but they are far from transparent. The Finance Ministry hired a private consultancy firm to review whether comprehensiveness and a proper risk analysis are guaranteed in connection with the AKB's assumptions of liabilities.

7. Protection of U.S. Intellectual Property

The legal system protects secured interests in intellectual property rights, including patents, trademarks and copyrights. Austria is a party to the World Intellectual Property Organization and several international intellectual property conventions, such as the European Patent Convention, the Paris Industrial Property Convention, the Madrid Trademark Agreement, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Procedure, the Universal Copyright Convention, the Brussels Convention Relating to the Distribution of Program-carrying Signals transmitted by Satellite, and the Geneva Treaty on the International Registration of Audiovisual Works. In the World Trade Organization Treaty on Intellectual Property (WTO TRIPS) negotiations Austria prefers the "first-to-file," and not the U.S.-favored "first-to-invent" principle; further, initiatives should be encouraged to promote trade of property protected by copyright, according to Austrian negotiators.

Patents: In compliance with the WTO TRIPS agreement obligations, Austria extended patent terms on inventions to 20 years after application. However, the Parliament has delayed the decision on a patent law amendment that would have implemented the 1998 EU guideline on the protection of biotechnological inventions. This amendment would strengthen regulations on patent offences and compensation, and the obligations to give information.

Copyrights: The copyright law grants the author the exclusive right to publish, distribute, copy, adapt, translate, and broadcast his work. Infringement proceedings, however, can be time consuming and complicated. In 2001, Austria, in line with EU requirements, implemented a law against product piracy to prevent trade in counterfeit goods. A special problem under Austrian copyright law is that "tourist establishments" (hotels, inns, bed and breakfast establishments, etc.) may show cinematographic works or other audiovisual works, including videos, to their guests without prior authorization from the copyright holder. The United States holds this provision to be inconsistent with Austria's obligations under the Berne Convention and

TRIPS. Austrian copyright law also requires that a license fee be paid on imports of home video and DVD cassettes and broadcasting transmissions. Of these fees, 51 percent are paid into a fund dedicated to social and cultural projects. In the view of the United States, the copyright owners should receive the revenues generated from these fees and any deductions for cultural purposes should be held to a minimum.

New Technologies: Due to the alleged possibility of patenting genes, plants and animals, Austria is reluctant to implement the EU directive 98/44/EG on the protection of biotechnological inventions. The delay may infringe U.S. investments. Content piracy on the Internet is another growing problem although the copyright law is fully applicable in this regard. However the Austrian courts are hesitant to enforce the law against the pirates.

American investors are entitled to the same kind of protection under Austrian patent and copyright legislation as are Austrian nationals. Intellectual property problems do not specifically affect U.S. trade. Austria was not mentioned in the U.S. government's "Special 301" review in 2000.

8. Worker Rights

a. *The Right of Association:* Workers have the constitutional right to form and join unions without prior authorization. All 12 sectoral unions belong to the Austrian Trade Union Federation (OGB), which has a highly centralized leadership structure that does, de facto, not allow other unions to thrive. Although the right to strike is not provided explicitly in the Constitution, it is universally recognized. Labor participates in the "social partnership," in which the leaders of Austria's labor, business, and agricultural institutions jointly try to influence legislation on social and economic issues. Under the current government their impact is decreasing.

b. *The Right to Organize and Bargain Collectively:* Unions have the right to organize and bargain collectively. Almost all large companies, private or state-owned, are organized. Worker councils operate at the enterprise level, and workers are entitled by law to elect one-third of the members of supervisory boards of major companies. Collective agreements covering wages, benefits and working conditions are negotiated exclusively by the OGB with the National Economic Chamber and its associations, which represent the employers. All workers except civil servants are required to be members of the Austrian Chamber of Labor, a public body that is enabled to act for workers' rights along with the OGB.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by law, and this prohibition is enforced effectively. Trafficking in women for the purpose of forced prostitution, however, remains a problem.

d. *Minimum Age for Employment of Children:* The minimum legal working age is 15. The law is enforced effectively.

e. *Acceptable Conditions of Work:* There is no legally mandated minimum wage. Instead, nationwide collective bargaining agreements set minimums by job classification for each industry. Workers as well as the jobless are entitled to a variety of generous social benefits that guarantee a high standard of living on average. Over half of the workforce works a maximum of either 38 or 38.5 hours per week, although the legal workweek has been established at 40 hours. The Labor Inspectorate ensures the effective protection of workers by requiring companies to meet Austria's extensive occupational health and safety standards. Slight differences between blue collar and white-collar workers with regard to health care have been further reduced in 2000.

f. *Rights in Sectors with U.S. Investment:* Labor laws tend to be consistently enforced in all sectors, including the automotive sector, in which the majority of U.S. capital is invested.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category	Amount
Petroleum	(1)
Total Manufacturing	1,114
Food & Kindred Products	39
Chemicals & Allied Products	73
Primary & Fabricated Metals	(1)
Industrial Machinery and Equipment	131
Electric & Electronic Equipment	403
Transportation Equipment	228
Other Manufacturing	(1)
Wholesale Trade	592
Depository Institutions	1,601
Other Finance/Insurance/Real Estate	126
Services	164
Other Industries	(1)
TOTAL ALL INDUSTRIES	3,676

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.